

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Hollingsworth Analyst: Jane Tolman Bill Number: AB 1887  
Related Bills: See Legislative History Telephone: 845-6111 Introduced Date: 02-05-2002  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Exclusion/Social Security Retirement Income & Federal Civil Service Retirement Annuity Income

### SUMMARY

This bill would exclude from taxation:

- Social Security retirement income and benefits and
- annuity retirement income attributable to federal civil service.

### PURPOSE OF THE BILL

The purpose of this bill according to the author is to decrease the amount of tax paid by individuals living on certain types of retirement income.

### EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would take effect immediately. It would apply to taxable years beginning on or after January 1, 2002.

### POSITION

Pending.

### Summary of Suggested Amendments

Department staff is available to assist with amendments to address the concerns noted below.

### ANALYSIS

#### FEDERAL/STATE LAW

Federal law generally taxes pensions, Individual Retirement Accounts (other than Roth IRA), annuity plans, railroad retirement tier 2, and self-employed retirement plan benefits. Social Security and the equivalent tier 1 railroad retirement benefits can be partially taxable depending on the taxpayer's total income. Essentially, the higher the total taxable income, the greater the taxable part of the Social Security or equivalent tier 1 railroad retirement benefits.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Alan Hunter for GHG

03/27/02

California generally conforms to the federal laws taxing pensions, IRAs, annuities, and retirement income. However, California excludes from taxation any Social Security, tier 1, or tier 2 railroad retirement benefits.

### THIS BILL

The bill would exclude from taxation Social Security retirement income and benefits and retirement annuity income attributable to federal civil service.

### IMPLEMENTATION CONSIDERATIONS

Implementation of this bill would not significantly impact the department.

### TECHNICAL CONSIDERATIONS

Social Security is already excluded from taxation under Revenue and Taxation Code Section 17087, so part of this bill would simply duplicate that existing exclusion. Department staff is available to assist with amendments for this bill or the existing section to eliminate duplicate language.

### **OTHER STATES' INFORMATION**

*Illinois, Massachusetts, Minnesota, Michigan, and New York* also exclude Social Security and tier 1 railroad retirement income from taxation, while taxing federal civil service retirement income. These states were reviewed because of the similarities between California income tax laws and their tax laws.

### **FISCAL IMPACT**

This bill would not significantly impact the department's costs.

### **ECONOMIC IMPACT**

#### Revenue Estimate

Revenue losses are projected to be as follows:

AB 1887 Revenue Impact Tax Years Beginning After December 31, 2001 Enactment Assumed After June 30, 2002 (\$ Millions)			
Fiscal Year	2002-03	2003-04	2004-05
Federal Civil Service	-\$295	-\$220	-\$230

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

The revenue estimates above were initially calculated on a tax year liability basis and then converted to fiscal year, cash-flow projections (July 1-June 30).

Revenue Discussion

Revenue losses were estimated by the use of the personal income tax model to simulate the exclusion of pension income. From national data, it is known that federal civil service retirement benefits compose 11% of all retirement benefits from federal, state, and local retirement systems. This percentage was applied to the total amount of California taxable pension income projected by the tax model.

**LEGISLATIVE STAFF CONTACT**

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